



Legislative Fiscal Bureau

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April 9, 2019

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Property Tax Estimates Under the Governor's Budget Bill

This memorandum provides an estimate of the effects of Assembly Bill 56 and Senate Bill 59 (the Governor's 2019-21 biennial budget bill) on property taxes. This memorandum also updates the property tax estimates for the 2018(19) tax year based on reports filed with the Department of Revenue (DOR) by local governments.

For school districts, the Governor's budget bill (AB 56/SB 59) would make several changes that would affect the statewide school levies, including: (a) providing a revenue limit per pupil adjustment of \$200 in 2019-20 and \$204 in 2020-21; (b) increasing the low revenue adjustment under revenue limits from \$9,400 in 2018-19 to \$9,700 per pupil in 2019-20 and \$10,000 per pupil in 2020-21; and (c) providing a revenue limit adjustment for lead testing and remediation. These changes would provide an estimated increase in statewide revenue limit authority of \$123 million in 2019-20 and \$289 million in 2020-21, which would be offset by a funding increase for general school aids of \$205.0 million in 2019-20 and \$406.3 million in 2020-21, as well as \$7.5 million in hold harmless aid in 2020-21. Beginning in 2020-21, the bill would also shift funding from the school levy and first dollar tax credits to general school aids and make various changes to the general school aids formula. While the funding shift and formula changes would affect the distribution of funding among school districts, it would not affect the statewide net school levy.

Technical college districts have been subject to a revenue limit since the 2014 tax levy. Under the limit, each district cannot increase revenue in any year by a percentage greater than its valuation factor, defined as the greater of 0% or the percentage change in the district's equalized value due to net new construction in the district in the prior year. For purposes of the limit, revenue is defined as the sum of the district's tax levy and its property tax relief aid, which is the district's share of the \$406 million aid payment to technical college districts that was created by 2013 Wisconsin Act 145. The bill would change the technical college district revenue limits so that a district would not be allowed to exceed its revenue in the previous school year by the greater of 2% or the percentage change in

its equalized value due to net new construction. This provision would increase technical college levies by an estimated \$2.7 million in 2019(20) and \$5.5 million in 2020(21).

For municipalities and counties, AB 56/SB 59 would make several modifications to the county and municipal levy limit program. Under the current law limit, initial levy increases for each municipality and county are based on the greater of the percentage change in each jurisdiction's tax base due to net new construction that occurred in the jurisdiction during the prior year, or 0%. AB 56/SB 59 would make two primary changes to the levy limit program:

1. Change the definition of "valuation factor" so that the minimum allowable percentage change to county and municipal levies would be 2% rather than 0%. Current law prohibits counties and municipalities from increasing their levies by a percentage that exceeds their valuation factor. The "valuation factor" is currently defined as a percentage change equal to the greater of either the percentage change in a county or municipality's January 1 equalized value due to net new construction, or 0%.

2. Repeal the negative levy limit adjustment for fees for covered services. Current law requires counties and municipalities to reduce their allowable levies by an amount equal to the estimated fee revenues received in lieu of property taxes for providing a covered service that was funded with the property tax levy in 2013. A "covered service" is defined to mean garbage collection, fire protection, snow plowing, street sweeping, or storm water management, although some specific exceptions exist.

AB 56/SB 59 would also create two limited exclusions to the levy limit for costs related to new or enhanced transit services across adjacent county or municipal borders and for charges assessed by a joint emergency dispatch center. Furthermore, the bill would reduce the current law exclusion to the levy limit for charges assessed by joint fire departments from 2% plus CPI to 1% plus CPI.

The Governor's recommended changes relating to increasing the minimum allowable levy increase from 0% to 2% as well as the Governor's recommendation to repeal the negative adjustment for revenues from covered services are the only proposed changes to the levy limit program that would have a measurable effect on county and municipal levies. Increasing the minimum allowable levy increase to 2% would increase municipal levies by an estimated \$16.2 million in 2019(20) and \$32.7 million in 2020(21). This provision would also increase estimated county levies by \$11.4 million in 2019(20) and \$23.1 million in 2020(21). Repealing the negative adjustment for fees for covered services would increase municipal levies by an estimated \$0.4 million in each year, but would have no estimated effect on county levies in the biennium.

The school levy tax credit is currently funded at \$940 million GPR annually and the first dollar tax credit is currently funded at \$150 million GPR annually. These credits are paid on the fourth Monday in July of each year for the taxes levied in December of the previous calendar year. AB 56/SB 59 would eliminate funding for the school levy tax credit and the first dollar tax credit beginning in 2021-22 (property tax year 2020(21)). This funding would be used to increase general school aids by \$1,090 million in the 2020-21 aid distribution (paid to school districts in July of 2021), which would result in a dollar-for-dollar reduction on a statewide basis to the school levy in tax year

2020(21). Therefore, shifting funding from the school levy tax credit and the first dollar tax credit to general school aids would have a limited statewide effect on the property tax bill for the estimated statewide median-valued home in 2020(21). However, shifting funding from the tax credits to general school aids would have varying effects on individual properties and taxing jurisdictions.

The Governor's proposal to shift funding from the school levy tax credit and the first dollar tax credit to general school aids for tax year 2020(21) would have a negative impact on statewide tax increments of tax incremental financing district (TID) levies. As mentioned above, the increase in general school aid funding would have the effect of reducing the school district levy tax rates for school districts benefiting from the additional aid. For any such school district that is an overlying taxing jurisdiction of a TID, the lower school district property tax rate would reduce that TID's annual tax levy (increment), and its ability to repay its project costs. Under these and other provisions in the bill, statewide TID levies are estimated to decrease by 5.5% in property tax year 2020(21), compared to 2019(20).

AB 56/SB 59 would make several changes to funding for school district categorical aid, county and municipal aid (shared revenue), general transportation aid for counties and municipalities, and state general aid for technical college districts. However, due to the way the local fiscal controls are structured, these funding changes are not estimated to have a measurable effect on the tax levies of school districts, counties, municipalities, or technical college districts.

Under the county and municipal levy limit, net new construction provided allowable levy increases of 1.6% in 2017(18), 1.6% in 2018(19), and estimated current law increases of 1.6% in 2019(20) and 1.7% in 2020(21) are expected. Due to adjustments and exclusions to state fiscal controls, this levy limit does not control the entire levies of those jurisdictions.

Based on reports filed with DOR, gross property tax levies are estimated to total \$11,198.1 million on a statewide basis for 2018(19). This represents a 1.7% increase relative to the 2017(18) statewide total of \$11,016.1 million. After applying state tax credits, net property tax levies are estimated to be \$9,876.4 million, an increase of 1.2% compared to the 2017(18) total of \$9,760.0 million. Under in AB 56/SB 59, gross property tax levies would increase on a statewide basis by an estimated 2.0% in 2019(20) and would decrease by 7.7% in 2020(21). However, increases of net levies of 2.4% in 2019(20) and 2.1% in 2020(21) are estimated. The decrease in gross levies and the increase in net levies in 2020(21) are due to the Governor's proposal to shift funding from the school levy tax credit and first dollar tax credit to statewide general school aids. The following table reports these amounts by type of taxing jurisdiction.

Property Tax Estimates Under AB 56/SB 59

	Final <u>2017(18)</u>	Preliminary Estimates <u>2018(19)</u>	Estimates Based on Provisions In the Governor's Budget	
			<u>2019(20)</u>	<u>2020(21)</u>
Tax Levies (In Millions)				
Municipalities	\$2,839.2	\$2,922.1	\$3,021.1	\$3,127.8
Counties	2,196.6	2,229.8	2,292.9	2,359.1
School Districts	4,945.2	4,987.9	5,003.0	3,958.0
Technical College Districts	446.6	457.2	474.8	492.7
Tax Increment Districts	476.0	486.0	506.9	479.0
Special Purpose Districts	112.5	115.0	120.0	122.7
Gross Property Tax Levies	\$11,016.1	\$11,198.1	\$11,418.8	\$10,539.3
Change to Prior Year		182.0	220.7	-879.5
Net Property Tax Levies	\$9,760.0	\$9,876.4	\$10,114.0	\$10,324.4
Change to Prior Year		116.5	237.6	210.4
Percent Change				
Municipalities		2.9%	3.4%	3.5%
Counties		1.5	2.8	2.9
School Districts		0.9	0.3	-20.9
Technical College Districts		2.4	3.8	3.8
Tax Increment Districts		2.1	4.3	-5.5
Special Purpose Districts		2.2	4.3	2.2
Gross Property Tax Levies		1.7%	2.0%	-7.7%
Net Property Tax Levies		1.2	2.4	2.1
Tax Bill Estimate -- Current Law				
Median-Valued Home	\$160,622	\$166,967	\$173,646	\$178,681
Tax Bill Estimate	2,876	2,871	2,943	2,988
Change over Prior Year				
-Amount		-\$5	\$72	\$45
-Percent		-0.2%	2.5%	1.5%
Tax Bill Estimate -- AB 56/SB 59				
Median-Valued Home	\$160,622	\$166,967	\$173,646	\$178,681
Tax Bill Estimate	2,876	2,871	2,927	2,975
Change over Prior Year				
-Amount		-\$5	\$56	\$48
-Percent		-0.2%	2.0%	1.6%
Change over Current Law				
-Amount			-\$16	-\$13
-Percent			-0.5%	-0.4%

Under current law, for 2019(20) and 2020(21), gross levies are estimated to increase by 2.0% and 1.8% for school districts, 3.3% and 3.2% for technical college districts, 2.8% and 3.0% for municipalities, and 2.3% and 2.4% for counties. Under AB 56/SB 59, the estimated statewide gross school district levies are estimated to increase by 0.3% for 2019(20), but would decrease by 20.9% for 2020(21). This decrease in 2020(21) is due to the Governor's proposal to shift funding from the school levy tax credit and first dollar tax credit to general school aids, which would reduce estimated school district levies in that year. Statewide 2019(20) and 2020(21) levies are estimated to increase under AB 56/SB 59 by 3.8% each year for technical college districts, 3.4% and 3.5% for municipalities, and 2.8% and 2.9% for counties.

The table also shows estimates of the impact of various tax amounts on the median-valued home taxed at the statewide average tax rate. Home value estimates are based on the 2000 median home value for Wisconsin reported in the 2000 decennial census, adjusted to reflect the annual change in residential property values due to economic factors (appreciation or depreciation) as reported by DOR. Increases in statewide property values have occurred each year since 2013, including increases of 3.2% in 2017, and 4.0% in 2018 for a median-valued home. The median home value is projected to continue to increase by 4.0% in 2019 and 2.9% in 2020. Comparatively, total statewide equalized values are projected to increase 4.8% in 2019 and 4.1% in 2020.

Since total values are expected to increase faster than the median home value, the estimated property tax change on a median-valued home is less than the estimated rate of change of statewide tax levies. Under the preceding assumptions, statewide net levies are estimated to increase by 2.4% in 2019(20) and by 2.1% in 2020(21) under AB 56/SB 59. In comparison, the estimated net tax bill on a median-valued home is estimated to increase by 2.0% for 2019(20) and by 1.6% in 2020(21) under the bill. Tax bills are estimated at \$2,927 for 2019(20) and \$2,975 for 2020(21) under AB 56/SB 59. Compared to current law estimates of \$2,943 for 2019(20) and \$2,988 for 2020(21), the estimated tax bill on a median-valued home would be \$16 less (-0.5%) for 2020(21) and \$13 less (-0.4%) for 2020(21) under the bill.

The most significant factor leading to the overall change in the estimated tax bill for the median-valued home varies by year. The Governor's proposal to related to schools would have the greatest effect on the tax bill in the biennium. These provisions would result in estimated reductions to the school tax on the median-valued home of \$25 in 2019(20) and \$32 in 2020(21), after factoring in the current law credits in that year.

The figures in the table are estimates for the state as a whole. The tax impacts on individual municipalities would vary considerably from these figures.

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